

# Review

## Budget 2011



### BUDGET NOTES - PRIVATE EQUITY

Please see the note which overviews measures set out in the Chancellor's 23 March Budget which are particularly relevant for private equity.

#### The good

- The entrepreneurs' relief lifetime allowance is to be expanded from £5m to £10m. In cash terms this is worth another £900k. Therefore entrepreneurs' relief planning for both managers and co-investors will come into even sharper focus on private equity deals.
- The cuts in the UK's CT rate will be accelerated. The CT rate is to be cut to from 28% to 26% for 2011/12 declining to 23% for 2014/15.
- EIS relief will be extended to plug the equity gap. The rate of EIS relief will be raised from 20% to 30% for the 2011/12 and, subject to obtaining EU state aid approval, the maximum investment in a tax year will be increased from £500k to £1m from 2012/13.

#### The not so good

- NIC rates are to rise with effect from 6 April 2011. The employer's NIC rate rises to 13.8% and the standard and higher employees' rates rise to 12% and 2% respectively. This was a previously announced change which pre dates the Coalition Government.
- The rules on "disguised remuneration" are to be implemented. The bottom line is that many attempts to mitigate income tax using EBT and third party structures will be ineffective generating PAYE and NIC liabilities from 6 April 2011. This will give rise to DD issues for private equity on new deals and it may result in various remuneration structures having to be unwound.

#### And what may come to pass

- The chancellor announced that he is consulting on merging income tax and national insurance.
- If this reform goes ahead it will simplify life on a day to day basis for business by reducing the complexity in payroll systems.
- However, there will be many issues which need to be considered. For example, headline rates for basic rate taxpayers would, using April 2011 figures, rise to 32% and the knock on effects for pensions tax relief and the tax treatment of the elderly would need to be thought through.

Please contact your Squire Sanders Hammonds tax contact to discuss further.

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